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ABSTRACT

Noting that advertising agencies have not been examined as a collective industry, this paper looks at the development and structure of the advertising agency industry. The first portion of the paper discusses the development of the agency. The remaining two sections deal with trends in and the structure of the industry including: (1) the growth of independent services, (2) the rise of "in-house" agencies, (3) increased multinational expansion, (4) the acquisition and merger movement, (5) the movement away from the traditional compensation system, (6) the growth of market demand, (7) the ease of industry entry and survival, (8) industry concentration, and (9) product differentiation. (HTH)

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ADVERTISING DIVISION

ADVERTISING AGENCIES: AN ANALYSIS OF INDUSTRY STRUCTURE

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The advertising agency acts as the primary mediating force between two institutions: advertisers and the mass media. Traditionally defined as an "independent business composed of creative and business people who develop, prepare and place advertising in media for clients seeking to find customers for their goods and services" (23), the mediating role performed by the advertising agency represents the service that it "sells" to advertisers; approximately 40% of all advertising expenditures are mediated by agencies (27).

The predominant theme in past considerations of economics and advertising has been the effect of advertising on economic welfare; rarely has the mediator been mentioned. In 1983 alone, $44.2 billion were recorded in worldwide advertising billings from national agencies (38). Clearly, advertising agencies merit economic examination collectively as an industry, yet such an investigation has apparently been overlooked. Because the economic performance of any industry is determined by its structure, the nature of structural variables in the advertising agency industry should be identified. Important questions include: Is this industry competitive or concentrated? Do barriers to entry exist or can a firm easily enter this industry? Is differentiation of services a necessity, or even a factor, in gaining a position and/or surviving in this industry?

DEVELOPMENT OF THE ADVERTISING AGENCY

Although the "advertising agency" was identified as early as 1841, when Volney Palmer began soliciting advertising for various newspapers (22), advertising agents served the interests of

publishers, rather than of advertisers, until the 1870s. This approach was altered by two influential pioneers: George Rowell began bargaining with publishers to obtain the lowest possible rates, offering his skills as a "service" to advertisers, and F. W. Ayer originated an "open contract" system, wherein advertisers relied on agents to deliver to them the best possible price for media placement (36). Rather then merely selling space to the advertiser, the agent began buying space for the advertiser (36). The agency purchased media space (and later time) for the advertiser and was granted a discount from the media, but collected the full amount from the client, retaining the commission from the discount. Agency commissions stabilized at approximately 15% by 1879 (11). Creating copy and artwork and performing research became additional agency functions in the 1920s (36).

Following World War II, however, business began to recognize that the marketing process began and ended with the consumer (11), giving rise to what has become known as the "marketing concept." In response to advertiser demand, agencies began offering a full range of consumer-oriented marketing services in addition to the advertising services previously available. Most large agencies were considered "full-service" in nature by the early 1960s (36), performing creative, research, media, management, and various specialist services. Another possible reason for increased client services during this time period is that an agency might collect "enormous fees" for a few words of copy on a large account due to the costly media placement (12), thereby perhaps receiving an inequitable income.

The 15% commission had remained intact throughout this time frame and was the predominant mode of agency compensation. In 1955, the Department of Justice charged that certain trade association practices were illegal under the Sherman Anti-Trust Act, due to qualifying standards set for agencies to receive media commissions. A consent decree formed between the Department of Justice and the trade associations in 1956 outlawed "fixing, establishing, or stabilizing agency commissions" as a group (22).

Because the modern, "full-service" agency was in place in the 1960s, and agencies were receiving less discriminating treatment from the media regarding commission methods, the early 1960s represent a logical starting point from which to examine the structure of the advertising agency industry.

RECENT TRENDS CONCERNING ADVERTISING AGENCIES

The following trends occurring in the agency industry during the 1960s and 1970s require preliminary consideration, as each may have impacted upon industry structure:

1. Growth of independent services
2. Rise of "in-house" agencies
3. Increased multinational expansion
4. Acquisition and merger movement
5. Movement away from the traditional compensation system

Growth of Independent Services

In the late 1960s, several independent advertising services were formed, including media buying services, creative boutiques, and research services. Such services arose simultaneously and

complemented each other well. In the mid-1960s, many creative people left larger advertising agencies and established their own creative boutiques, specializing in the creation and production of advertisements; other services were contracted out to specialists or handled by the advertiser (36). The rise of independent media and research services made it possible to begin an agency without the large structure of account executives and media planners that may have been necessary previously. The "door was open" to "a whole generation of frustrated, thirty-five- to forty-five-year-old creative men who had always longed to start an agency but could not kitty up the needed capital to go out on their own" (12). The rise of creative shops lacking media competency allowed the number of independent media buying services to flourish (11).

These "a la carte" services posed a potential threat to full-service agencies, as advertisers moved their business toward the new individualized services possibly to achieve greater self-sufficiency by trying to reduce costs during a then-present profit squeeze (18). Advertisers also reportedly perceived declining quality in full-service agencies (18). Many agencies responded through reorganization of their media departments, attempting to restore cost-saving efficiencies by hiring fewer, but more experienced individuals (15); overexpanded services were reported to be falling out of agencies "like overripe fruit" (12) during this time period, as full-service agencies struggled to cope with their new challengers.

The growth of these independent services may have reduced concentration in the advertising agency industry, stimulating

increased competition as advertisers were offered additional outlets to which they could turn for advertising assistance.

Rise of "In-House" Agencies

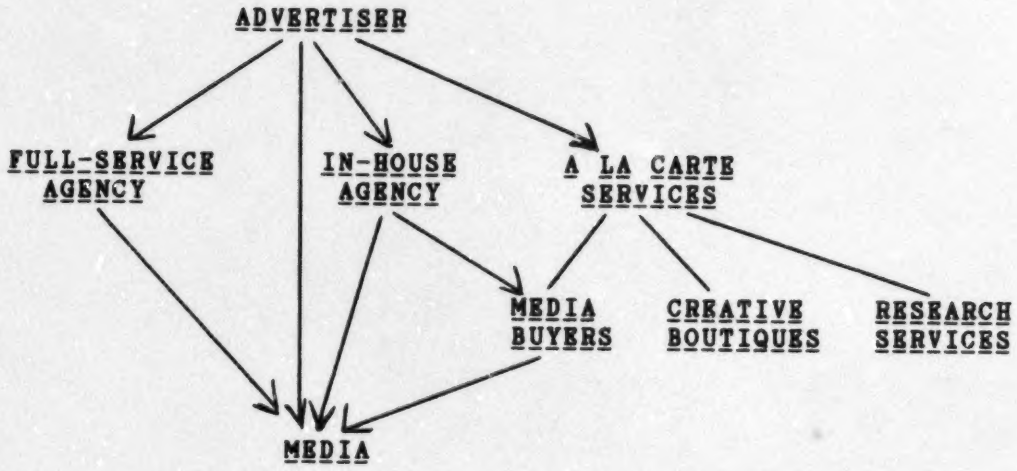
Even greater, and more direct, self-sufficiency would be obtained through developing an agency within the business of the advertiser itself, to handle creative, media, and/or research functions. The rise of "in-house" agencies, implemented predominantly by larger advertisers (18), dovetailed that of media buying services and creative boutiques. In-house agencies often used outside independent services for their specialized expertise as well.

Extravagent commission discounts and avoidance of production markups were cited as economies of in-house operations (28). In a 1976 study by the Association of National Advertisers (ANA), 11% of those advertisers surveyed stated that they maintained a house agency; this percentage was comprised primarily of large advertisers (20).

As advertisers began coordinating their advertising in a "piecemeal" manner, many full-service agencies responded by offering partial services (39).

Again, in-house agencies provide the possibility of increased competition and less concentration within the industry. Both the rise of independent services and that of in-house agencies have resulted in a re-structuring of the agency mediating role. The advertiser may now select one of several routes in creating and placing his advertising. (See diagram below)

Structure of the Advertiser-Media Relationship



Increased Multinational Expansion

J. Walter Thompson opened its first non-North American office in 1915 (49). Since then, United States agencies have expanded multinationally, demonstrating particularly strong activity following 1960 (49). By that year, the industry had 60 non-United States investments. Five years later, the total had doubled, and the next five years the total more than doubled again (49). Rather than begin their own agencies in other countries, many United States agencies purchased minority positions in non-United States offices, and eventually gained control or ownership. More recently, the purchase of large, well-established non-United States agencies has given the purchaser more immediate worldwide representation (49). A study of international agency expansion uncovered the following variables as common inputs to the decision to expand multinationally: offensive opportunities, defensive reactions, client service requirements, and desires of the senior executive (48).

Larger national agencies have been the most active in such expansion (48). Their increased size, due to non-United States billings, might result in deeper corporate "pockets," possibly allowing for the spread of risk, lower costs, due to economies of scale in expertise and production and research capabilities, and, thus, the creation of barriers to [illegible] try entry at the national level. Therefore, industry competition may have decreased due to multinational expansion.

Acquisition and Merger Movement

Growth is vital for the survival of an advertising agency (47), in order to both maintain and gain clientele. In the 1960s, many agencies attempted to diversify into other industries, including insurance, cable television, manufacturing, and discount stores, but the majority of such investments were disastrous (35). International expansion had reportedly reached the point of diminishing returns for many agencies in the 1970s (1), but the prosperity following the recession earlier that decade had left them with excess cash. Agencies found that the fastest and safest way to grow was to buy other agencies (6). Major agencies began "frantically opening branches around the country or buying up local agencies (6) as well as specialty agencies. Smaller agencies often are disposed to sell or merge due to a lack of capital to carry through essential improvements, a loss of important accounts, a loss of top personnel to "greener pastures," and superior financial capabilities on the part of competitive agencies in gaining accounts (1).

A resurgence in the acquisition and merger movement is currently underway in the agency business, resulting in horizontal integration

with potentially far greater impact. Increased agency merger action characterized the 1970s, as more then 400 recombinations occurred within the decade (50), yet, as mentioned, most moves involved medium or large agencies merging with or purchasing their smaller counterparts. Since 1980, the industry has witnessed a trend toward "superagencies" created for greater profits and growth (9). This renewed merger activity involves "not just large agencies gobbling up small agencies, but large agencies merging with other large agencies" (34). Young and Rubicam has become one of the largest agencies worldwide primarily because of its agency acquisitions (34). Predictions imply that three to five "superagencies" will eventually dwarf all others (6). Yet while some individuals in the advertising business fear that Madison Avenue is heading in the direction of Wall Street, with the bulk of national advertising destined to be channeled through a handful of agencies, most believe that the financial stability of acquired agencies, as well as their client services, will improve as a result of such takeovers (35).

Merger activity might affect industry structure since any merger among firms competing in the same market is a step toward concentration (43). Merged operations, like multinational expansion, may create economies of scale in personnel expertise and output capabilities unattainable by smaller agencies. Furthermore, acquisitions or mergers generally provide agencies with a wider variety of clients, allowing for subsequent expansion of product category experience.

Movement Away from the Traditional Compensation System

A long-debated topic in advertising is agency payment. As previously mentioned, agencies have been traditionally compensated through a commission (typically 15%) from client media expenditures; a markup of 17.65% is usually added for production charges (23). Dissatisfaction with this system has been expressed recently, by both advertisers and agencies, due to either perceived undercompensation or overcompensation of the agency.

The commission system is commonly hailed as easy to understand and implement, yet an agency receives the standard media commission regardless of the work involved in preparation of the advertising material. The major weakness of this system is that the amount paid may be unrelated to the services performed. In the 1960s, a movement began toward agency compensation by fee, based on agency costs plus a markup (23). An ANA study indicates the continuing trend away from the commission-based system; while 83% of advertisers surveyed used this system in 1976, only 71% reported its use in 1983 (31). Additional compensation methods have been suggested, including time charge systems, based upon hourly rates, and incentive systems, specifying reimbursement for agency costs (or a fixed price) plus an additional amount determined by sales results (13, 30). Many advertisers use some combination of compensation methods.

The movement away from the traditional compensation system has implications for industry structure since price-based competition may result. Large, well-established firms may best be able to profit from price competition due to possible economies of scale in production and research, for example, therefore presenting possible barriers to

industry entry. Furthermore, an incentive system may lead to competition based upon quality or creative output; again, established firms might possess abilities in this area difficult for a new firm to achieve.

The aforementioned trends provide possible explanational factors underlying structural variables in the advertising agency industry, and changes in the same over time.

ANALYSIS OF ADVERTISING AGENCY INDUSTRY STRUCTURE

The advertising agency industry is unique in that most agencies, arising from entrepreneurial tendencies, are small and local in nature. Markets for which agencies compete differ at different levels of localization; "industry boundaries" are rather nebulous in this respect. Therefore, in order to examine competitiveness within the entire industry, an assumption must be made that all firms compete for the same market, seeking growth relative to all others; this assumption will underlie the structural analysis.

In considering the structure of an industry, several variables require examination, including: growth of market demand, industry barriers to entry, seller and buyer concentration levels, and product differentiation (14).

Growth of Market Demand

A growing industry might signal the opportunity for greater competition, as firms have little incentive to battle for market share (14). Increasing growth of future advertising demand has been forecast based on a predicted realization by major advertisers of the possible long-run costs of reduced advertising expenditures (7). The

growth of the advertising agency industry can be determined by examining the real-dollar total worldwide billings spent by United States agencies (billings represent amounts paid to the media for time and space). The growth in such billings (converted to 1967 dollars) has been fairly steady following the recessionary period of the early 1970s. (See Table 1) Since 1964, worldwide billings have more than doubled, reaching $14.9 billion in 1983.

Approximately 80% of billings figures represent support for media operations (41), so gross income may be a more accurate measure of agency industry growth. Worldwide gross income, which has remained at a fairly constant 14.5% of worldwide billings, has also grown rapidly, nearly doubling between 1975 and 1983. (See Table 1)

Agency worldwide billings have also increased slightly as a proportion of the Gross National Product (GNP), as shown in Table 2; again, such growth may be indicative of a growing market demand.

Because only worldwide total billings and gross income figures were available, such increases might be reflective of the multinational expansion movement occurring throughout the time period in question. Therefore, caution should be used in drawing conclusions from these data. (United States billings figures could not be reliably estimated due to an indeterminate percentage increase in foreign investment each year.)

Ease of Industry Entry and Survival

The degree of competition in an industry may also be assessed through the ability, or lack thereof, of firms to enter the industry. Fixed costs, scale economies, and product differentiation may pose barriers to potential entrants.

Forming an advertising agency is an alluring prospect, given the promise of a 15% commission on media placement. Due to the "personal service" nature of the industry, the initial outlay, or fixed costs, required to start an agency are low. A manufacturing plant, factory buildings, and a fleet of vehicles are not required of an advertising agency; usually an office will suffice (37). The predominant expense or "cost" in the agency business is salaries. According to a study of agency profits, conducted by the American Association of Advertising Agencies (AAAA), about 65% of a typical agency's income is applied toward payroll, 16% for promotion, eight percent for rent, light, and depreciation, and four percent for taxes (3). Therefore, only about three percent of agency income represents net profits after taxes.

Thus, initial industry entry appears to be rather simple from a fixed costs perspective. Given a few bright minds and sufficient capital to rent office space, an agency can be formed. Patents, secret skills, raw materials, cartel restrictions, and heavy capital requirements, frequently cited as entry barriers (5), are noticeably absent in this industry. Ease of entry is exemplified by the increasing numbers of establishments with a payroll labelled by the United States Census Bureau as "advertising agencies," as depicted in Table 3.

Because an establishment represents a place of business open for operation, agencies with more than one operating branch would be doublecounted. Thus, more indicative of the ease of initial industry entry would be an increase in the number of inidividual firms. While such information was unavailable over time from census data, multi-establishment firms are not likely to have accounted for the entirety

of establishment growth depicted. The increasing independent service agencies throughout the late 1960s and early 1970s are possibly reflected in the greater percentage increases in number of agency establishments over this time period.

At present, 3,069 agencies are listed in the Standard Directory of Advertising Agencies, yet to qualify for inclusion a firm must be the agency of record for at least one national or multi-state account and must be a member of a national trade association (46). Therefore, this figure more than likely excludes local agencies.

While initial agency industry entry may be relatively simple, firm survival is more fluid. Ultimately, a firm in any industry must attract customers whose purchases provide sufficient revenue to meet operating requirements (5). The size of established firms within the industry might pose a barrier to survival, as potential economies of scale may be enjoyed by larger firms (generally defined as those with billings greater than five million dollars). Although under a commission system of compensation price competition would not likely occur, as recognized agencies receive equivalent media commissions, large firms may be able to spread costs due to more experienced personnel and capabilities. Additional costs from independent services are usually avoided by larger agencies.

The majority of agencies had fewer than five employees in 1977, but the largest percentage of receipts were accrued to firms with greater than 1,000 employees, as Table 4 indicates. To determine size economies, however, the receipts and cots per employee would require assessment. An investigation of size and management style of three San Francisco agencies determined that overall performance, based upon

billings, pre-tax profits, and client retention, was superior for the small (40 employees) and large (100 employees) agencies relative to the medium-sized (65 employees) agency (24).

Agency networks, consisting of small and medium-sized agencies, may help such firms achieve lower costs through shared resources in market analysis, and media buying and planning (40). Some networks charge flat annual fees while others operate on a sliding scale basis adjusted to reflect those services utilized by each member agency (27).

A study examining the impact of scale and media mix on agency costs found that very small agencies may have substantial scale-related cost disadvantages relative to large agencies (44). This finding was attributed primarily to the clientele of larger agencies who required the use of media with lower unit costs; specifically, national broadcast media were mentioned (44).

Among the major problems a new agency faces is a potentially long lag time before sufficient accounts are obtained to cover expenses (12). Salaries of principals within the agency are often treated as variable costs when cost adjustments become necessary due to a lack of or loss of accounts (25). A possible barrier may arise concerning account acquisition, because of "product differentiation" characteristics equated with firm size as well. Larger agencies typically maintain a more diverse group of product accounts and, therefore, may be selected by a client over a smaller agency. "Expertise" is an aspect of differentiation in a service industry. "The 'Catch 22' of the advertising agency business: your shop doesn't land an account because it has no experience in the category, and it

won't get experience in the category without the account" (33). Most guidelines published to aid an advertiser in agency selection include such criteria as: financial stability, knowledge and experience, creative reputation, size, and growth record (29,42,45). A new firm may, thus, have difficulty obtaining clients. Furthermore, a client outgrowing an agency often stimulates agency "switching" (21).

Even if a new, smaller agency gains clients, obtaining media access may prove problematic. The media generally require that an agency have sufficient financial resources to cover time and space charges in the event of a client defaulting (23). Furthermore, while slow client payment is a problem for any agency, smaller agencies usually lack the financial capabilities of larger firms to operate successfully in such instances (10).

Thus, growth and, hence, survival within the industry may be difficult for a new firm; estimates predict that one in five new agencies will grow to survive (27). In the advertising agency industry, the "big" typically "get bigger," primarily because large advertisers tend to seek the services of large agencies (41).

The increasing size of large firms within the industry might also pose a barrier to the survival of other firms if larger agencies continually obtain new business. As shown in Table 5, 22 firms, or .3% of all firms in the industry, took in 52.4% of industry receipts in 1977, indicative of the size rewards. An AAAA survey in 1977 revealed that the largest size agency group received a pre-federal income tax profit 90% higher (as a percentage of gross income) than was the average profit among all agencies (4). As a general rule, the larger the agency, the higher its profitability, and the

larger its base over which to spread costs (37). Large publicly-held agencies were determined to reap higher pre-tax profits than did privately-held agencies as well (37). Advertising agencies began "going public" in the 1960s (19), and six of the top 10 agencies are publicly-owned (2).

Furthermore, companies that are large tend to expand through diversification, vertical integration, and/or multinational expansion (14). As previously mentioned, efforts by agencies to diversify have usually failed, and vertical integration beyond in-house agencies has apparently not proliferated. Multinational expansion, however, has been evidenced by large firms in the agency industry. By expanding into other countries, risks can be spread as firms realize deeper corporate pockets. Table 6 reflects the relationship between United States and worldwide billings. Pearson correlation coefficients show a consistent relationship between United States and worldwide billings, indicating that the largest national firms also tend to be strongest in multinational expansion. The smaller coefficient in 1975 may be evidence of a slow recovery from the recession earlier that decade, resulting in less national spending relative to international growth. Table 7 exemplifies this increased percentage of foreign billings from the top ten domestic agencies in worldwide billings.

The problem of competitive accounts is often cited as a possible obstacle inhibiting agency growth. Yet, while product conflict stances, wehrein an agency would refrain from handling competing acocunts, might have signalled a potential limit to expansion in the past, strict conflict policies are beginning to recede. Many multinational agencies are carrying several conflicting accounts internationally (16).

Merger activity, or horizontal integration, may also present entry barriers, since as agencies become increasingly large, they gain increased expertise in personnel and services. Again, economies of scale might be realized from putting together units that duplicate services (34). Such mergers often leave agencies with competing products, which is another reason for the easing of conflict stances (16); conflicting accounts might also be handled through separate agency entities (34). Governmental antitrust agencies, however, seem unconcerned with the merger movement. A 1979 Federal Trade Commission probe determined that barriers to new agencies entering or existing agencies growing were not raised as a result of agency mergers (26).

Industry Concentration

The concentration ratio of an industry is a measurement of "the extent to which the larger sellers control the bulk of the industry's sales" (14). A competitive industry is commonly defined as one in which less than 33.3% of the market share is controlled by the top four firms and less than 50% is controlled by the top eight firms (32). Concentration ratios for the advertising agency industry were derived from annual worldwide billings data. The figures in Table 8, representing the 20-year span from 1964 to 1983, reveal a competitive market situation existent throughout this time. Although the CR_4 figures remain within two to three percentage points over time, both the CR_4 and CR_8 figures have risen over the past two decades; more significantly, the CR_{20} for this industry has gained greater than 10 percentage points since 1964. Thus, while the four firms with the largest billings figures collectively hold approximately 22% of the

total agency billings over time, the top 20 firms appear to be gaining in their percentage of total billings.

Such increasing concentration might be explained in part by the recent acquisition and merger movement as well, since international expansion has been demonstrated by these larger firms. The data may also be reflecting increasing price competition as more client-agency relationships move toward a fee system and economies allow larger agencies to charge lower prices. Based upon these concentration ratios, independent services and in-house agencies have not played a major factor in increasing competition, yet such services may have prevented heightened concentration within the industry.

Concentration ratios based upon United States billings figures could not be estimated--the percentage increase in United States billings may not necessarily mirror the change in worldwide billings, due to the expansion of multinational firms. Gross income figures from 1982 and 1983 were available. These figures show even less concentration in the United States alone, and a highly concentrated situation in non-United States gross income for United States agencies (see Table 9), again providing evidence of the abilities of very large agencies to expand.

Buyer concentration may affect the structure of an industry as well, in that a more concentrated group of sellers may wield greater bargaining power in buyer-seller interactions (14). Although buyer concentration is difficult to assess in this industry, advertisers outnumber agencies and most large, national advertisers use more than one agency; therefore, concentration on the buying side does not appear to threaten competition within the industry.

Product Differentiation

Product differentiation involves an adaption by firms within an industry to specific consumer tastes (5), in essence, "non-price competition." As previously mentioned, due to the "service" nature of the industry, expertise with particular product categories may provide differentiation among agencies. As the move toward a fee system ensues, creative experience may play a larger differentiating role. Speculative presentations, attempts to gain new business through displaying strategic positions and creative work, have become increasingly common as clients attempt to select agencies to handle their accounts. Agencies complain about the costs of such presentations, which are recovered only if the agency is awarded the account (17), and inequities exist in the practice as a smaller, less-experienced agency may lose the opportunity to gain large advertiser accounts based upon the cost of producing such presentations (8).

The reputation of an agency may also aid in differentiating its services. Agencies are known for being dull, creatively brilliant, stodgy, classy, well-managed, or plagued by management problems (6). Such factors might influence potential clients. Size and types of services offered also play key roles, as advertisers seek agencies capable of handling their needs. The leading firms have changed little over the past 20 years, indicating the importance of reputation, or even age, of the firm. Most leading firms were originated prior to World War II (12), and the median age of these firms is 35 years (25).

CONCLUSIONS

Examining the advertising agency industry has revealed ease of initial entry, a large number of firms present, and a competitive environment; idealistically, such elements characterize pure competition (43). Yet, the ability to differentiate and economies realized by gaining size within the industry appear to present barriers, perhaps not sufficiently large to impede industry entry, but large enough to inhibit the rapid growth of new and suboptimal firms.

Recent industry trends, including mergers, international expansion, and a movement toward a fee system of agency compensation, provide possible explanations for slight structural changes over the past two decades, primarily the increased market share of the largest agencies. The rise of independent services, however, may have stemmed concentration from greatly increasing during this time period.

Any preliminary investigation can serve to describe, yet raises further questions for consideration as well. Relaxing the assumption regarding nationalism, or one market of buyers, agencies in competition at the local level may still experience a similar structure in terms of economies of scale and differentiation through expertise. Concentration levels may be higher at the local level, however, if fewer firms compete for a smaller market and one or two dominate. Agency operations at a local versus national level should be examined. Furthermore, the elements which determine survival of a firm require analysis with greater scrutiny to uncover not only which variables are most important in predicting survival, but the relative importance of these variables as well. Such questions can only be answered through further investigation of this industry.

TABLE 1. GROWTH IN AGENCY BILLINGS AND GROSS INCOME (Billions)

Year	Worldwide Billings	Billings (1967=100)	Worldwide Gross Income	Gross Income (1967=100)
1964	6.6	7.1	--	--
1965	7.2	7.6	--	--
1966	7.2	7.4	--	--
1967	8.3	8.3	--	--
1968	8.9	8.6	--	--
1969	9.9	9.0	--	--
1970	10.2	8.8	--	--
1971	10.5	8.7	--	--
1972	11.3	9.0	--	--
1973	12.9	9.7	--	--
1974	13.6	9.2	--	--
1975	14.6*	9.1	2.02	1.25
1976	16.9	9.9	2.47	1.44
1977	19.4	10.7	2.86	1.57
1978	23.3	11.9	3.46	1.77
1979	27.9	12.9	4.10	1.89
1980	31.8	12.9	4.67	1.89
1981	35.6	13.1	5.24	1.93
1982	39.2	13.6	5.88	2.03
1983	44.2	14.9	6.51	2 19

*Estimated figure based upon gross income as a percentage of billings from average of subsequent years.

Sources: Statistical Abstracts of the United States; billings data for this and other tables from annual agency income issues of Advertising Age: February 21. 1966, February 26, 1968, February 23, 1970, February 21, 1972, February 26, 1973, February 25, 1974, February 23, 1976, March 14, 1977, March 13, 1978, March 19, 1980, March 18, 1981, March 16, 1983, and March 28, 1984. Data based upon a mail survey of agencies; those reports lacking complete information are rejected.

TABLE 2. AGENCY BILLINGS AS PERCENTAGE OF GNP (Billions)

Year	Worldwide Billings	GNP	Billings as % of GNP
1965	7.2	691.1	1.04
1970	10.2	992.7	1.03
1972	11.3	1,185.9	1.00
1974	13.6	1,434.2	0.95
1976	16.9	1,718.0	1.00
1978	23.3	2,163.9	1.08
1980	31.8	2,631.7	1.21
1982	39.2	3,073.0	1.28

Sources: Statistical Abstracts of the United States; Advertising Age billings issues

TABLE 3. AGENCY ESTABLISHMENTS WITH A PAYROLL

Year	Establishments	% Increase
1958	4,240	--
1963	4,820	13.7
1967	5,747	19.2
1972	7,188	25.1
1977	8,089	12.5

Source: U. S. Census of Selected Services, 1958, 1963, 1967, 1972, 1977

TABLE 4. AGENCY SIZE BASED ON NUMBER OF EMPLOYEES (1977)

Number of Employees	Firms	(%)	Receipts (1,000)	(%)	Employees	(%)
Less than 5	4,693	61.5	343,478	10.8	8,945	10.8
5-9	1,561	20.5	314,885	9.9	10,458	12.7
10-19	832	10.9	344,206	10.9	11,138	13.5
20-49	371	4.9	371,124	11.7	10,983	13.3
50-99	101	1.3	267,369	8.4	7,120	8.6
100-249	45	0.6	260,183	8.2	6,896	8.4
250-499	11	0.1	211,754	6.7	4,193	5.2
500-999	8	0.1	274,247	8.7	5,543	6.7
1,000+	11	0.1	781,314	24.7	17,239	20.9
TOTALS	7,633		3,168,560		82,515	

Source: U. S. Census of Service Industries, 1977

TABLE 5. AGENCY RECEIPTS BY SIZE OF FIRM (1977)

Receipts	Number of Firms	(%)	Receipts (1,000)	(%)
Less than 10,000	456	6.0	3,013	.1
10,000-99,999	3,542	46.4	179,501	8.1
100,000-999,999	3,296	43.2	434,704	19.7
1-19.9 million	317	4.2	432,231	19.6
20 million +	22	0.3	1,153,883	52.4

Source: U. S. Census of Service Industries, 1977

TABLE 6. RELATIONSHIP BETWEEN U.S. AND WORLD BILLINGS OF TOP TEN AGENCIES IN U.S. BILLINGS (000,000)

	1955		1961		1965		1970		1975		1980		1983	
Agency	U.S.	World	U.S.	World	U.S.	World	U.S.	World	U.S.	World	U.S.	World	U.S.	World
JWT	172.0	227.0	254.0	380.0	351.5	530.1	438.0	773.0	432.8	900.1	918.9	2,137.7	1,266.8	2,524.1
Y & R	166.0	182.0	237.6	280.9	306.1	372.7	356 4	520.2	476.6	800.9	1,333.7	2,273.2	1,827.9	2,761.4
FBDO	162.5	162.5	235.7	248.2	292.7	304.4	324.4	337.1	369 8	525 0	806.4	1,305.0	1,349.0	1,949.0
M-E	132.0	166.0	227.0	325.0	270.0	420.0	246,5	562.0	230.8	775.1	---	---	---	---
AYER	90.0	90.0	113.5	113.5	---	---	---	---	---	---	---	---	---	---
LEO B.	69.2	71.0	136.1	136.1	184.7	188.6	283.6	392.4	400.0	623.0	734.6	1,144.8	914.1	1,485.3
FCB	68.0	76.0	108.3	127.0	186.0	233.0	179.0	240.6	275.3	396.4	749.3	1,117.6	1,075.5	1,405.6
B & B	68.0	68.0	109.2	116.0	140.2	130.2	---	---	---	---	492.0	806.0	---	---
K & E	68.0	68.0	---	---	---	---	---	---	---	---	---	---	---	---
BATES	59.2	59.2	150.0	163.0	180.4	237.5	254.0	414.2	280.2	604.0	720.3	1,404.1	1,629.0	2,586.1
DFS	---	---	103.1	103.1	139.1	139.1	---	---	---	---	---	---	---	---
DDB	---	---	---	---	139.1	148.9	249.7	291.4	---	---	671.0	1,004.0	970.0	1,321.0
GREY	---	---	---	---	---	---	180.0	230.4	287.0	399.3	524.9	795.5	839.5	1,224.0
ESTY	---	---	---	---	---	---	170.0	170.0	---	---	---	---	---	---
O & M	---	---	---	---	---	---	---	---	266.1	581.6	837.1	1,661.9	1,361.4	2,360.4
S & S	---	---	---	---	---	---	---	---	---	---	---	---	---	---
PEARSON R =	.9720		.9896		.9450		.8492		.5894		.9054		.8737	

Source: Advertising Age billings issues

TABLE 7. PERCENTAGE OF NON-UNITED STATES BILLINGS FOR TOP TEN AGENCIES IN WORLDWIDE BILLINGS

Agency	1955	1961	1965	1970	1975	1980	1983
JWT	24.2	33.2	33.7	43.3	51.9	57.0	49.8
M-E	20.5	30.2	35.7	56.1	70.2	76.0	68.1
FCB	10.5	14.7	20.2	25.6	30.5	33.0	23.5
Y & R	8.8	15.4	17.9	31.5	40.5	41.3	33.8
LEO B.	2.5	0.0	2.1	27.7	35.8	35.8	38.5
BATES	0.0	8.0	24.0	38.7	53.6	48.7	37.0
BBDO	0.0	5.0	3.8	3.8	29.6	38.2	30.8
B & B	0.0	5.9	7.1	--	--	--	--
DFS	0.0	0.0	--	--	--	--	--
AYER	0.0	0.0	--	--	--	--	--
DDB	--	--	6.6	14.3	--	--	--
GREY	--	--	--	21.9	28.1	--	--
DMM	--	--	--	--	29.0	57.0	--
SSC & B	--	--	--	--	--	77.1	74.4
S & S	--	--	--	--	--	--	54.9
$\bar{X}$ =	6.7	11.2	19.1	30.0	42.3	51.4	45.3

Source: Advertising Age billings issues

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TABLE 8. AGENCY INDUSTRY CONCENTRATION RATIOS (BASED ON WORLDWIDE BILLINGS)

Year	CR_4	CR_8	CR_{20}
1964	22.7	33.4	54.2
1965	22.6	33.9	54.7
1966	24.7	37.9	61.1
1967	21.8	34.8	55.7
1968	21.5	34.0	54.3
1969	21.7	34.3	53.9
1970	22.2	34.8	54.9
1971	21.9	34.8	56.3
1972	21.5	35.2	57.3
1973	20.8	35.0	58.2
1974	21.1	35.8	57.8
1975	21.2	35.7	55.6
1976	21.2	36.9	63.1
1977	22.4	37.9	63.7
1978	23.1	38.0	63.1
1979	23.9	38.9	60.8
1980	24.7	40.4	66.9
1981	23.4	38.8	65.2
1982	23.9	39.8	66.3
1983	23.1	39.3	65.7

Source: Advertising Age billings issues

TABLE 9. AGENCY INDUSTRY CONCENTRATION RATIOS (BASED ON U.S. AND NON-U.S. GROSS INCOME)

U.S.:

Year	CR_4	CR_8	CR_{20}
1982	19.3	32.0	54.3
1983	19.0	32.0	55.7

NON-U.S.:

1982	40.1	68.7	98.9
1983	39.9	69.3	99.4

Source: Advertising Age billings issues

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